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(FOUO 13/82)



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THEATER FORCES

FEDERAL REPUBLIC OF GERMANY

FIRST FLIGHT TEST OF MBB SOLID-PROPELLANT RAMJET

Paris AIR ET COSMOS in French 28 Nov 81 p 44

[Article by P.L.: "First Flight Tests of MBB Boron-Fueled Solid-Propellant Ramjet"]

[Text] The MBB [Messerschmitt-Bolkow-Blohm] company (FRG) has just successfully completed the first two flights tests of its new boron-fueled solid-propellant ramjet, the development of which has been under way for the last 3 years under an FRG Defense Ministry contract. The tests were carried out in Sardinia (Italy), using a dummy missile with a test model of MBB's solid-propellant ramjet as its cruise vehicle and the first stage of an American "Honest John" missile as a booster. These tests were designed to test only the operation of the boron-fueled solid-propellant ramjet. The experimental missile was therefore equipped with a telemetry link and with a guidance and piloting system consisting of a strapped-down inertial navigation equipment and computer. According to MBB, the performance of the ramjet fulfilled all expectations, even at attack angles greater than 8 degrees.

This boron-fueled solid propellant ramjet is designed for next-generation tactical missiles like the new ANS supersonic antiship missile developed jointly by AEROSPATIALE [National Industrial Aerospace Company/ and MBB under a cooperative Franco-German project. It is presently considered the preferred solution for the main ANS delivery vehicle. But the builders of the ANS actually have a choice between a solid-propellant ramjet (the MBB one) and a liquid-propellant ramjet (derived from that of the French tactical nuclear ASMP [Air-to-Ground Medium Range Missile]). The final choice is due to be made in 1984, at the conclusion of development work and flight tests on the two types of ramjets, to be carried out between now and then in France and the FRG.

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ENERGY ECONOMICS

ITALY

GRANDI INTERVIEWED ON ENI'S STRATEGY

Rome ENERGIA in Italian Dec 81 pp 16-27

[Interview with Alberto Grandi, president of the National Hydrocarbons Agency, by Romano Prodi, in Rome, November 1981]

[Text] [Question] Can you present briefly the strategic lines along which ENI [National Hydrocarbons Agency] is moving and the ways in which this strategy is tending to be formulated?

[Answer] Various motives, decisions and restrictions are confluent in the strategy of a special structure like the structure of an enterprise with state participation. Alongside the statutory tasks, we have government decisions and guidelines, expressed in laws, resolutions, authorizations. We have objective behavior restrictions. First of all, there are the ones stemming from the greater responsibilities and requirements of a social nature with which we are inevitably charged. We are thinking of the subject of supplying methane in the South, which certainly a private company would not accomplish, at least in the dimensions established in government headquarters.

This does not mean that the strategy is "given" to us, but we certainly have a degree of freedom that is smaller than the degree of freedom of a private enterprise, especially in the choice of field toward which to direct our activity.

It suffices to mention the obligations of the former EGAM [Agency for the Management of Mineral and Metallurgical Concerns] companies, and, more recently, of the SIR [Italian Resins Company] and the Liquichimica Company, and, in a certain way, of the Monti Group, delegated to ENI, in order to point out the most important restrictions.

ENI's strategic plan, however, does not waste time on the determination and quantification of sectoral objectives and on singling out priorities in programming investments, but, rather, it is characterized especially by the industrial policies that it assumes, by the ways in which it intends to pursue the previously selected objectives. It is up to us to act so that an operation that might be taken as one of mere salvage is incorporated in a framework that will have its own economic validity and that can thus be turned into a positive act.

From the point of view of priorities, actions undertaken in the field of energy (to increase the degree of autonomy and reliability of supplies and to contribute

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to a change in the energy system) and actions for improving the publicly owned chemical industry.

With regard to industrial policies, the basic motives consist of the following:

[a.] Internationalization: this is an approach pursued, with appropriate initiatives, in the whole range of the Group's operations, for individual industrial activities and for financial activities. It should be pointed out that the solution of the problem of the basic chemical industry is being sought, for the first time and in a radical manner, on an international scale.

[b.] Stimulus and reorganization of scientific research activities and activities for innovation, with a trend toward interventions in the energy and chemical sectors, specific forms of organization of research in high risk areas, joint ventures with international operators.

[c.] Adoption of strict criteria for ensuring investment quality both for the reconversion processes and for new investments.

[d.] Trend toward measures and interventions to ensure the necessary shift of the prevailing "orientation toward production," characteristic at present of large activity sectors of the group (chemical and textile industries), to an effective "market orientation."

[e.] Pursuit of a more balanced relation in the financial structure between own means and overall coverage, with the possibility of acquiring fresh money not only through the state, but also through access to the national and international stock markets.

Although these are intervention and method priorities with which we intend to move, it is also true that there are other serious problems to which great attention must be paid, like improvement of the textile sector and of the former EGAM companies. The important point is to avoid occurrence of what happened in the textile sector where, for example, the improvement of Lanerossi, which was achieved in the 1960's, was later suffocated by the acquisition of other enterprises imposed on us--like Monti, Fossati, Cotoniére Meridionali--with resultant huge losses. With SAMIM, for example, the 577 billion lire that the state had granted to ENI as endowment fund were almost wholly absorbed by covering the losses generated by the inherited production structure.

[Question] In a few words, ENI feels that being a public enterprise is constantly more burdensome, with a whole series of impositions that a private structure does not have to undergo.

[Answer] What we are trying to do in the various sectors of the Group is to acquire private partners precisely for the purpose of putting ourselves in a logic that will be tied as much as possible to an industrial management rather than to a purely social point of view, with all the problems that this kind of position entails.

[Question] How is the need for a long-term strategy--often, as you have said, "imposed" on ENI from the outside--reconciled with the discontinuity of the political authority characteristic of the Italian situation?

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[Answer] The government's continuity represents an indispensable requirement. In my opinion, the lack of it is one of the main sources of problems for the PPSS [State Participations] system. And that is not only with regard to the aspects of a strategic nature, but also because of the possibility for the shareholder--the state--to ascertain the validity of the management that it has placed to guide the enterprises. At present, the management has a series of formidable alibis precisely owing to the fact that the persons with whom it speaks change constantly. I have been in ENI for a year and a half now and I have already seen three energy plans. Under these circumstances, it is impossible to have stable, precise directives. Too often we are faced with program drafts that vary as the ministers vary.

The idea of extending the term of office of the presidents of state participation agencies seems to me one that can be shared, but it would require--in order not to prove to be useful solely for internal organizational purposes--a continuity of presence in the government structure. It is possible to determine the specific responsibilities for a failure to attain the objectives only with stability of the persons with whom we deal.

[Question] ENI's strategy--regardless of how it has been forming--has been confined within very precise limits, judging from all that you have said so far. The first point is the lack of clarity or, rather, the vagueness of the objectives that the agency must pursue, as is shown by the experience with the energy plans. The second point is the risk of constant interference from outside the agency, which, every time, diverts huge funds from the primary objectives to which the agency's activity should have devoted itself. The third obstacle is the "discontinuity" of the outside authorities to which the agency should report on its own operations. In view of the fact that it will be difficult for these obstacles to disappear in the near future, how do you believe that the achievement of a strategy of constant production diversification is compatible with so restricted and tortuous a maneuvering area? Voluntarily or not, in the last few years, ENI has in fact expanded the range of its activities impressively, both in the sectors in which it was traditionally involved (like the energy sector) and with regard to new sectors. This strategy is exactly the opposite of the strategy of the largest international energy enterprises, which, with considerably more resources than ENI, have preferred to aim a production and marketing specialization, abandoning less important sectors and less advantageous markets.

[Answer] Precisely for the motives that I mentioned to you first, in many cases the course of diversification was imposed on the agency. A typical example is the example of the textile sector in which we are now pursuing a line of disinvestment, at least. Another example is the example of the mineral-metallurgical sector. This sector came to ENI as a result of the dissolution of EGAM. The activities thus taken over were and are considerably passive. The only possibility for improvement lies in a vast program of internationalization of the sector, with the resultant readiness of the public shareholder to commit trillions of lire to it. Therefore, it is up to the government to decide if it is in favor of that kind of operation, causing SAMIM to come out of a situation that is compelling it, at present, to operate only on national mines that may, perhaps, have strategic importance, but certainly no economic importance. In this assumption, I wonder if it is not worth while to set up an ad hoc structure, with financing adequate for the task and a management not distracted by other important duties. The white book of the Ministry of PPSS itself pointed out the need for incorporating the activity of aluminum, zinc, lead and other nonferrous metals in one single agency.

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At any rate, I should like to point out--when an "excess" of diversification is mentioned--how, even in the most recent ENI programs, a very high share of investments (85 percent) is always concentrated in the energy sector and auxiliary activities.

[Question] And what about diversification in the field of the energy sector?

[Answer] In this case, too, diversification initiatives result at times from outside pressures. We would certainly not have thought of expanding our activity also into the coal sector, if we had not been told to do so. If the shareholder has chosen to put us in this field, this decision must, therefore, be supported by logically consistent behavior. The same can be said of the oil sector in which we entered, recently, in the Mediterranean (former Monti Group) "venture." This decision may have its economic validity, but it falls into a trend that certainly is not to be exaggerated. On the day when ENI should be obliged to guarantee 60 to 70 percent of the country's oil requirements, at that point it should be wondered whether the entire nationalization of the sector is not preferable. The requirement for maintaining a diversification of operators seems, on the other hand, to be definitely indispensable, because it makes it possible not only to ascertain the economic quality of the operation of the state agency, but also to ensure greater reliability in the country's energy supplies. In short, attention must be paid to the fact that ENI does not have to extend its own market share excessively. That would not be in the country's interest. Moreover, the government has, within the field of a price policy that protects the interests of the oil companies, the instruments needed for requiring those same companies not to abandon the market in times of depression (it suffices to point out how the concessionary system operates in the oil market). Otherwise, the matter of "institutional" supplies by ENI ends by harming the state. In fact, when the domestic market makes economically valid results possible, the state agency's share decreases, while in the opposite situation it increases excessively, as is happening at the present time, when we are supplying over 60 percent of the nation's oil requirements.

[Question] Moreover, the Monti case represented a dangerous precedent in the oil sector with the risk that abandonment of our market by other operators will finally find expression in a further forced expansion of ENI's share.

[Answer] Precisely in order to reduce ENI's presence, in terms of quantity, on the domestic oil market, we are seeking to proceed with operations like the one concluded with Occidental in the chemical industry. In other words, to call foreign operators back into Italy to meet the oil supply requirements.

[Question] Maliciously, it may be said that the "foreign draft" can also be used to hold out against "domestic" obstacles.

[Answer] I should say that this is true.

[Question] In a logic of better allocation of the Group's resources, how do you justify ENI's remaining in the nuclear sector, where very high losses are being recorded, where the future certainly does not appear to be better and where there no longer is that concern of the 1960's for ensuring reliability of fuel supplies, which gave rise to ENI's entrance in the nuclear field?

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[Answer] The Group's crisis in the nuclear sector is caused by the incredible diversity of the programs decided on in their time and the construction of nucleoelectric powerplants. That is to say that it is caused by national programming in this sector. The present difficulties of AGIP [National Italian Oil Company] Nuclear stem from having taken on commitments--by specific, official government directive--with regard to programs that later turned out to be unrealistic. The situation would certainly not have been different, if an organization different from ENI had been carrying out the initiatives for nuclear fuel supply. Several times, we pointed out the need for coping with problems stemming from this by means of appropriate coordination action with ENEL [National Electric Power Agency]. Every solution can be taken into account in this framework and on the basis of a point of view that is not business-oriented, but, rather, that is to the greater advantage of the nation. The problem raised at this point is who pays for that mistake in programming. In 1992-1993, the cumulative loss for uranium enrichment and storage will be on the order of 8 to 9 trillion lire, including capital and interest. And this is still assuming that this Energy Plan, which however considerably reduces what was previously approved, will be carried through to fulfillment.

[Question] In the light of this sorry experience, now, almost 10 years later, you are confronted by another programmatic directive: all projected toward coal. In the 1977 Energy Plan almost no mention was made of it and now a consumption of close to 60 million metric tons is estimated by the end of the decade. In other words, a situation is being forecast for Italy's coal future not very different from the situation experienced in the nuclear sector and no less risky a situation. With investment choices that are being started even before the basic aspect of the "social acceptability" of those same choices has been ascertained. On the contrary, we are witnessing a race between operators to accelerate presence in the coal sector with everyone laying claims, in that sector, to inclinations that are at least questionable.

In this situation of uncertainty and of industrial risk, how does ENI evaluate the choice of coal? And also, in view of the decision by ENEL--the larger consumer and, therefore, the one with which you deal primarily--to acquire coal directly and to acquire mining participations on its own, what concrete prospects are there for ENI in this field?

[Answer] Because it is true that, in view of the way in which things have gone in the nuclear sector, it is absolutely necessary for our country to adjust to other solutions, including the coal solution. ENI is seeking to move toward this choice, risking but prudently. Theoretically, next year we shall have the possibility of bringing 3.5 million metric tons of coal into Italy. A good part of it, however, has already been placed on the American market and another part can be acquired directly for the requirements of our coke plants. Therefore, the present availabilities of ENI are no risk from the economic point of view. It is certainly unthinkable to go to support immediately investments that may ensure 20-30 million metric tons in a period of 4 to 6 years. This amount should represent 50 percent of the agreement provided with ENEL, in accordance with the PEN [National Energy Plan] forecasts.

Recently, I stated my perplexities in this connection on the advisability of ENEL's becoming a direct mining operator. It is a different matter for ENEL to have reliability of supplies and the capability of competing in supplying coal.

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Therefore, it is a question of setting up, on the one hand, with reference to the National Energy Plan, an action program by ENI adjusted to the need for reliability of supply for the Italian market (and the ENI programs are subject not only to the government's approval but also to examination by Parliament) and, on the other hand, it is a question of making possible an independent commercial supply activity of ENEL that will enable ENEL to ascertain the advisability of supplies from AGIP Coal and that will enable AGIP Coal to compete at all times with the most qualified international operators. Naturally, because the requirements for reliability will lead to a commitment by ENI requiring huge mining investments, it is natural that a certain guarantee for placing coal from deposits abroad to which ENI holds title is necessary. ENI and ENEL have already set up, for this purpose, a Coal Committee in which all problems of integration and coordination between the two agencies pertaining to development of this source will be examined. The committee should be made up of a series of relationships at a more operational level. It seems to me that an orientation like the one that I have set forth here is also expressed in the latest edition of the Energy Plan.

In short, ENI does not want to take on the role of sole institutional supplier of ENEL, but, as an international operator in coal, it counts on having ENEL as its main customer, certain to succeed in supplying the agency under conditions of competition with the other international operators.

[Question] With regard to the chemical industry, ENI has enormously expanded its presence to the less attractive primary products that show severe problems of excess production capacity and of intolerable competition from "new producers" on the international level. With its accounts at hand, how can ENI cope with this kind of situation? How much acceptance of outside pressures and of informed strategy is there in ENI's decision?

Can you summarize for us, for purposes of this subject, the terms of the ENI-OXY agreement? Can you in particular present the advantages that will be derived by ENI from the operation?

[Answer] First of all, I state that ENI is not programming new action in the primary chemical industry, but, rather, it is seeking solutions to existing problems in a difficult task of improving activities and initiatives that have gone into a state of crisis. Absorption of LIQUICHIMICA and of SIR has given rise, within ENI, to extremely important organizational problems. In fact, we have to bring together personnel who formerly operated in hot competition. We have to eliminate plants that are useless duplications. We even have to shift personnel to a plant that was formerly a competitor, and so on. This commitment was assumed on the basis of government decisions, as is evident from the legislative context in which the operation is incorporated. This is no reason for the evaluation of the "project" necessarily to be negative. It would become negative, if the solutions adopted should be influenced by undue pressures, by the prevalence of special interests.

Having said that, there is still the question on the validity of the program, on the effects on ENI and on the nation's economy of the anticipated initiatives. The lines of action connected with the establishment and development of the public "chemical pole" go beyond mere action of rationalization and renovation of the primary chemical industry, and they affect development of the secondary chemical industry, the nutrition sector, pharmaceuticals and parapharmaceuticals, development

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of applied research and of innovative research, modernization of the marketing mechanism, a definite move toward internationalization.

This is the framework in which the agreement for the establishment of ENOXY falls. This company is in joint venture between ENI and Occidental Petroleum Corporation. The agreement was signed definitively in Rome on 29 October 1981. This is not the only initiative that ENI intends to carry out along this line in the chemical industry. This one should be followed by others that will enable us to join up with international partners in special sectors of the chemical industry.

ENOXY, whose activity should start on 1 January 1982, will be participated in equally by ENI and Occidental with a corporate capital of \$1.05 billion (\$525 million for the chemical sector and \$525 million for coal) and will operate internationally.

ENOXY, a holding company with headquarters in Holland, will hold 100 percent of the operational companies represented in Italy by ENOXY Chemical Company, which will include the petrochemical activities that will be taken over from SIR and ANIC [National Agency for the Hydrogenation of Fuel] (about 60 petrochemical plants) and in the United States by ENOXY Coal Incorporated, which will have a complex of four coal mines.

A third company, ENOXY Management, with headquarters in Zurich, will preside over the operations of coordination, organization and decision-making of the operational companies. This structure's primary objective is to ensure, with the collaboration of international managers, the resurgence of ENOXY petrochemical on the organizational, logistic and marketing level, in order to achieve degrees of efficiency comparable with the most effective competition and to acquire, therefore, broader and more stable positions on the Italian market and especially on the foreign market.

The chemical activities, which are starting from a very passive economic situation owing to considerable industrial and financial problems, will have a financial structure--by means of the contribution by partners and by the government support provided in the chemical plan of Minister De Michelis--that will make it possible to hold the burdens down to levels of absolute competitiveness with regard to competition, in order to allow the necessary maneuvering freedom for proceeding with the industrial improvement of the activities.

Coal activity will be based in every phase--from extraction to transportation and to marketing--on the support and management of Island Creek, the Occidental Petroleum subsidiary operating in the coal sector and which, in size, is the fourth largest coal producer in the United States with reserves of 4 billion short tons. ENOXY Coal, with its four mines and with reserves of about 250 million short tons, has, at present, a production of 6.8 million tons, expandable, in the short term, to 10 million tons. Fifty percent of the coal mined will be available to ENI for the domestic market and, obviously, for the international market. We also have a berth available at Baltimore that provides access for ships up to 150,000 tons dead weight, making it possible, therefore, to reduce demurrage charges, now very high in the United States, by 30 percent.

In particular with regard to chemical activities, ENOXY's objective is to set up an international group with a size comparable with the largest European groups

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in the field of previously selected activity sectors. The production capacity of ethylene is around 1 million metric tons, one of the largest in Europe. The objective is to achieve a turnover of around \$6 to \$7 billion by 1986-1987. This objective should be attained by operating along the following lines:

1. By assuming prominent positions, in Europe, in important sectors of the petrochemical industry, especially in the large monomers (ethylene, propylene, vinyl chloride, butadiene, and so on) and in the principal plastic substances (low-density polyethylene and linear polyethylene, polyvinyl chloride, polystyrene) with European shares of 8 to 10 percent for the principal products.
2. By being present on the latex and synthetic rubber market with sizable shares (15 to 20 percent).
3. By increasing the production capacity of some plants in Italy and by proceeding, subsequently, with a program of purchases in other European countries, in order to expand the production and marketing base.

ENOXY will have a production structure closely integrated with raw materials provided by the parent corporations at competitive costs. The production lines will be rationalized. Technologies will be updated rapidly and the plants will be developed in their production capacity (also by completing some plants in Sardinia whose construction work has been interrupted for some time now).

In the area of fixed costs, ENOXY will minimize general expenditures and the cost of labor by setting up an operational structure and a very flexible, efficient headquarters, comparable with the structure and headquarters of European competitors.

[Question] Coming to the critical problem of oil supplies, what scenario do you anticipate in the short term (1981-1982) and in the medium term (1985-1990) on the international market?

[Answer] The framework in which the problem of oil supplies is located is full of uncertainties, distortions and risks, not only in the medium term but also in the short term.

The sizable decrease in oil consumption by the industrialized countries seems to be a factor of relative stability, but here too how much does the situational component come into play?

A stabilization factor, at least in the short term, seems to be represented by the oil policy of Saudi Arabia, which is giving evidence of great responsibility with regard to the international community (for example, the "war relief" supplies in the period of interruption of Iraqi and Iranian supplies) and it has pursued, with some degree of success, a policy of unification and modernization of prices, of their indexing on sound bases. But what data have we for knowing if and when one of the many factors of uncertainty weighing heavily on the world oil system (the future of Egypt after Sadat, the Palestinian issue, the Afghan issue, the development of the Iran-Iraq war or some other new trouble spot) will succeed in upsetting this moderate, balanced line that seems to be prevailing at present? The

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only sure fact is the uncertainty, the vulnerability of the system. Are we in a phase of adjustment and of rebalancing or merely in the rest period on a difficult journey?

We only know that difficulties, in terms of availability and prices, may come up at any time, and we must take that into account in our policies and in our programs.

[Question] How does ENI believe that it can adequately balance the traditional dichotomy reliability-burdensome cost of supplies?

[Answer] I do not believe that ensuring conditions of reliability entails necessarily an increase in the burden of supply, except, obviously, when it is a question of carrying out specific technical operations in terms of reliability, like organization of strategic stocks representing a specific cost of reliability. It can happen, as has happened historically, that the preparation of measures taken with regard to reliability, like, for example, the formation of stable, continuing relations, stipulation of long-term contracts, will give rise, under certain market conditions, to rigidity and burdens with regard to a more "commercial" method of operating. It must not be overlooked, however, that, in different market situations, reliability also becomes an advantage. To give an example, if in the period of crude "shortage" (1979), ENI had wanted and had been able to give up part of its own increased supplies on the spot market where crude oil had exceeded \$40 a barrel (compared with official prices of \$24 to \$27), it would have made huge profits, in spite of its withdrawing crude oil to a considerable degree from areas with the highest price level. The real problem is that, at certain sizes and when a specific role is played, as in the case of ENI, the criterion of reliability is an inevitable component within its own method of operating. With regard to the problem of "balancing" criteria of reliability with the pursuit of conditions of economy, the strategy of the ENI Group aims primarily at optimization of the crude oil pool, at attainment of greater industrial and marketing flexibility and at an increase in the degree of internationalization.

[Question] In recent years, ENI has shown several times a "remoteness" with regard to the market. "Short" in crude when demand was high, as it was in 1978-1979, and forced to resort to the spot market with higher costs and, on the other hand, "long" in crude oil when situations of depression in demand occurred, as at present, with equally higher than average costs. Does it not seem to you that all this ends by revealing scant operational flexibility in ENI and disturbing symptoms of stiffening of the decision-making processes? In a market that would require, on the other hand, constant adjustments and timely responses?

[Answer] Precisely in 1978-1979, ENI saw the largest increase in its supplies of crude oil, without resorting to the spot market. In that period, imports increased by about 10 million metric tons, compensating for the reduction in independent operators. The risk of a large deficit in the country's supplies, urgently made plain by the government authorities at the end of 1979, drove ENI to conclude contracts at any cost. Still at the end of last year, the situation of ENI's crude was very precarious. There was a real risk of a shortage created as a result of operations and situations before I came into ENI. The war between Iran and Iraq had taken away from us 10 million metric tons that we normally drew from Iraq. We could not buy from Kuwait owing to circumstances connected with the controversies between Kuwait and the Monti Group and between Kuwait and SARDOIL.

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Therefore, we acted to cope with this crisis situation. Suddenly, however, things began to change.

First, Saudi Arabia replaced the Iraqi in selling crude to us. Then, before any reasonable forecast, Iraq resumed supplies at the rate of 150,000 barrels a day. There were also possibilities of buying from Kuwait. Iran resumed supplies, making about 100,000 barrels a day available. Concerning a program for withdrawals of crude for 1981, which ENI indicated at the beginning of the year at 47 million metric tons, the May 1981 forecasts rose to 53 million tons. In view of the modifications that had occurred on the market owing to lower consumption thus we came around to assuming a surplus (availability-requirements) of around 8 million tons.

The Group's response capability, however, was not lacking. By means of a policy of reduction of withdrawals of more expensive crude, in June the surplus forecasts had been reduced from 8 to 6.6 million tons. In September, to 1.5 million and in October, around 0.5 million tons. At the same time, the price went down from an average of \$37.50 a barrel FOB in the first half-year to around \$34 a barrel, a price that is substantially at the average of the other companies, taking into account legitimate differences in quality.

The significance of the concept of surplus should be explained at any rate. If AGIP should again have to meet unforeseen requirements on its own market, because of the withdrawal of other operators as has happened in the past, it would be essential for it to have, at all times, the possibility of increasing the amount of available crude in a short time.

Therefore, a supply surplus must not be regarded as an exceptional condition, but rather a necessary one. That raises, however, the problem of how to find an inexpensive method, but rather one capable of yielding profits, of maintaining those amounts of crude that we might regard as a reserve of the company. For this purpose, AGIP is actively conducting research activities on various markets on which to sell crude with the intention of opening up outlets in remunerative markets from which it will be possible to withdraw at the time when the Italian market has an urgent need for reasons of quantity and quality.

Therefore, the activities directed toward reducing the surplus that was shaping up during 1981 are also viewed from the aspect of actions directed toward increasing the flexibility of crude supply and, therefore, toward coping better with the recurring surplus crises showing up on the international crude market.

[Question] ENI's full support of the arguments, advocated up to now by the private companies, in favor of a process of gradual liberalization of our market, especially with regard to price establishment policies, has given rise to some interest and to-do. Can you summarize your position on this subject?

[Answer] ENI's position with regard to oil prices is a position of transition from a system of administered prices to a system of supervised prices. This position stems from a careful, deliberate evaluation of the effects that the methods of operation of the mechanism for determining prices have had on the nation's oil system. It is not merely a question of losses, serious however, that the delay in price adjustments has brought about, but also and especially of the distorting effects produced on the market as a result of the artificial price level maintained on the domestic market.

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These effects can be summarized, by simplifying, in a situation of instability of the market, owing to flights especially by smaller operators in periods of reduced suitability, with negative repercussions for the ENI Group, which not only has to make up supply shortages in those periods precisely when this is most burdensome, but it is also thus subjected to artificial pressures and to constant variations in market quotations themselves.

[Question] Two objections that can be made to liberalization of the market are:

- a. How can ENI maintain a "controlling" function of price tensions, when it has higher production costs than the other enterprises?
- b. On the other hand, how could ENI support competition by the other operators favored by lower costs? Would not ENI run the risk of being restricted to the less attractive market segments (fuel oil) and excluded from gasoline and gas oils?

[Answer] The assumption that ENI is "structurally" in a situation of inferiority with regard to the other operators in the oil cycle is unrealistic. If this were so, we would not ask for a transition to a system of price supervision. At any rate, it is true that up to the middle of 1981 ENI recorded an average cost of \$37.50 a barrel FOB for supplies, a price higher than the average on the domestic market, amounting to \$36 a barrel FOB.

This difference was due to the greater presence of Saudi Arabian crude at official prices and of spot crudes in the pool of the other suppliers.

In order to cope with this kind of situation, we adopted "hard" policy with regard to the more expensive crudes. At present, we are not withdrawing crudes from Libya and we have cut off purchases of more expensive crudes.

Precisely in view of a more pronounced competitive position of ENI, actions have been scheduled for optimizing the oil cycle. They include:

- a. Search for a pool as economical as possible and suitable for the refining and final market structure of AGIP in Italy and for their evolution.
- b. Search for products to incorporate in the oil cycle in connection of optimization of the preceding point.
- c. Development of a transportation system that will minimize stops and will optimize runs for the purpose of obtaining the best economic results.

Returning to the matter of domestic prices, I believe that a plurality of operators is in the country's general interest. Achievement of this objective can be guaranteed only if those who operate in Italy have the possibility of making a profit, even with all the cyclical fluctuations. In view of this, how does the problem of "supervision" come up with regard to the present system of price "administration"? "Supervision" immediately adjusts the price to the variations in costs, while "administration" always entails a government decision with all the political problems resulting from it. Moreover, supervised price must have very precise limits of its own. They are established by the situation of prices in the European countries that are, at present, a reference for establishing administered price levels.

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Who is to ascertain this? In my opinion, the state should use its "secular arm," that is to say ENI/AGIP, which should calculate what the averages are for prices of oil products by referring to European prices.

[Question] Let us go on to analyze some problems inherent in ENI's organizational structure.

ENI employs 1,500 persons in central functions. Also, excluding personnel assigned to many different ministries (about 500 persons), ENI shows an employment in the holding company greater than the number of employees in considerably larger multinational companies.

[Answer] A comparison between different organizations, like the holding company of a multinational corporation and the holding company of a group with state participation does not seem to me entirely acceptable.

There are functions and procedures pertaining to the role of a public agency that involve the employment of special personnel not found in a private international organization. The obligation of establishing the interface of public administration structures with a bureaucratic nature causes a certain degree of bureaucratic proliferation also at the level of economic agencies, like ENI. I believe, however, that the problems should be regarded from a different point of view. Two motives and two organizational conceptions have been superimposing themselves on each other and intertwining with each other in the history of the agency: what we can call strong centralization, with the maximum number of functions concentrated in the holding company, and a more coordinated structure, with increasing room for autonomy for the operational companies, achieved, however, in forms that are not explicit or institutional and often in uncertain ways. The structure of the holding company did not succeed every time in adjusting to these changes in organizational policy, thus causing a gradual increase in personnel. A situation that is not always clear is derived from this, with sedimentation of organizational structure, loss of importance of roles, proliferation of duties, and so on.

The problem, now, is not one of establishing the "cut" to which the personnel are to be subjected, as it is one of reidentification of areas and functions of the holding company and of the company, within a strategy for objectives that will enable the Group to have all the services, first of all activation of the strategic and operational managerial function, in order to establish the relationship between volume of competences and professionalism and the objectives.

[Question] Still in connection with personnel, ENI is faced with two very important problems:

a. The departure from the Group by some very outstanding persons of the second generation. I am thinking in particular of Egidio Egidi and Lorenzo Roasio.

b. An appreciable imbalance in the age structure of the executive class, in view of the importance of the experience factor in managing enterprises in the energy sector.

To what do you attribute the first phenomenon and how does ENI intend to overcome the second?

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[Answer] With regard to the first point, obviously avoiding an attempt to interpret personal evaluations that were the basis for specific decisions, it seems to me that the subject should be brought to a more general level than the level of analyses of the internal operational conditions of the Group. Constantly more extensively and comprehensively, the management of a public industrial group is obliged to face up to the impact of an outside reality, of a political reality in the broadest sense, that affects its terms of operation, its inclinations and definitely its choices. In this context, departure from the Group can be regarded as a response on the individual level.

Concerning the second point, I should like to point out how change at the top levels of the individual companies has always been rather frequent at the operational and managerial level. The situation between a company and a holding company is different, especially in the holding company and company administration. In this case, a problem is involved that stems from the generally too sectoral and specialized characterization of the executive group of the holding company to which is added, at present, a certain degree of heaviness of the average age.

[Question] In the 1950's and the 1960's, ENI represented a formidable reference point in the growth and regeneration of the Italian industrial system, representing an almost unique example of "compactness" of the administrative group and providing Italy, along with other state participation enterprises, with a new "lay" technocracy, that is to say outside the large industrial families. Both the first and the second statement could certainly not be repeated today. The "divisions" within the Group (between "peripherals" and "centrals," between executives and top level of the holding company, between company and company, and so on) prevail over forces of unity, raising important questions on the very capability of the Group to respond, under similar conditions, to the new tasks imposed by the country. Connected with this problem is the still more critical problem, on which the first one perhaps depends, of the relations between ENI and political parties. How far have these relations "degenerated"? And how could they be properly revived?

[Answer] I am answering the three questions jointly, because they are closely connected and also, in some way, form a conjecture: degeneration of the relations between institutions, political forces, public economic agencies, dequalification and division of the administrative group. It is a conjecture that, naturally, has firm, varied confirmation factors, but that requires some specifications and differentiations.

The situation of extraordinary "compactness of the executive group," pointed out in the question, had its origin in special and, in part, unrepeatable conditions that should be pointed out:

[a.] The particular time in the history of ENI, a time characterized by the success of the initial battle for methane that offered the basis and the opportunity for an authentic explosion of initiatives, requiring in turn creation of new organizational, technical and entrepreneurial instruments, and all that on the basis of a small initial nucleus and, therefore, excited over the great opportunities that were opening up to it.

[b.] The country's general climate, a climate of reconstruction, of common conviction on specific value, of enthusiasm in participating in a great process of industrialization.

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[c.] The nature of a "challenge" taken on by the operations of ENI, a challenge with regard to the industrial potentates, the mythical seven sisters, but also private industry, entrenched in rigidly antistatist positions.

[d.] Also the situation at that time reduced the impact with the political world predominantly to a relationship at the top level, in particular between government and enterprise.

When there is a transition from a phase of prevailing creative drive to a phase of prevailing operation, spaces close up, frictions--also for objective reasons--increase, moral tensions are attenuated. From this point of view, I would not overestimate the indicated motives for division. Although there certainly are perverse "motives" in them, they are also the result of real difficulties that can find their solution, only if there is a desire for one and it is known how to seek it.

At present, the country is, just as it was perhaps in the postwar period, confronted by a new turning point. What has been achieved is creaking and risks collapsing. New incentives, new ideas and the courage for new entrepreneurial challenges are needed. And the situation of ENI reflects the country's situation, today just as it did at that time.

The Group is emerging from a phase of managerial sluggishness to start off on new courses, in energy, in chemistry, pursuing lines of more definite opening out into the international field, seeking and creating conditions of innovation. In the face of innovative events--like the agreement with Occidental--there has not yet been, both within and outside the Group, that kind of response and support that we might have expected.

We have the duty to develop--with renewed attention to the organizational force, that is to say by seeking ways for a definite resumption of a "team" dialogue and with a different spirit of participation and consensus--a suitable climate for a bold, binding program.

In order to be able to operate in this way, it is indispensable for the shareholder to act rapidly to eliminate situations within the Group that end by causing disorder and disorientation that are objectively intolerable for the purpose of achieving final success.

If we know how to operate in this way, we shall also find an answer to the problem of the "degeneration" of relations between ENI and public institutions, between ENI and political parties. It is not a question of closing the doors, but of making distorted interpretations of the nature of those relations constantly less possible.

[Question] In view of the challenges that ENI is called upon to make, it is possible, therefore, according to you, to reconstruct an agency that has in itself a greater possibility of determining itself its own strategy, of facing up to the outside, of finding, through this challenge, a new force of unity?

[Answer] Aside from what may be affected optimisms, the objective is certainly possible. An effort by everyone is needed, however. It must be realized that an instrument of wealth like ENI cannot be used for power maneuvers, but only for operations tied with the creation of wealth. If I must give an optimistic note

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with regard to everything pertaining to the future, I shall give it after having read the Amato report, a report that, although with a need for suitable revisions, is a very valuable and important document, if it succeeds in being the point of reference of the reform of the system of state participations.

Trend of ENI's Instantaneous Operational Margin in 1981
(situation resulting from the Interministerial Price Committee action
on 30 October 1981 and from the OPEC resolution of 29 October 1981)

Month	FOB cost of imported oil (\$ a barrel)	Lira/dollar exchange rate	CIF cost of imported raw material (lire per ton)	Return on the raw material from the in- ternational market (lire per ton)	Operational margin (lire per ton)
			(A)	(B)	(C = B - A)
1980					
Dec	33.50	930	237,000	222,000	-15,000
1981					
Jan	37.50	953	271,000	234,000	-37,000
Feb	37.50	1,020	290,000	257,000	-33,000
Mar	37.90	1,037	297,000	257,000	-40,000
Apr	37.90	1,076	310,000	257,000	-53,000
May	37.30	1,141	322,000	273,000	-49,000
Jun	35.80	1,184	321,000	273,000	-48,000
Jul	35.30	1,215	325,000	283,000	-42,000
Aug	35.10	1,245	330,000	283,000	-47,000
Sep	34.30	1,187	308,000	283,000	-25,000
Oct	33.70	1,180	301,000	283,000	-18,000
Nov*	34.10	1,200	309,000	297,000	-12,000
Dec*	34.10	1,200	309,000	297,000	-12,000

* Estimates.

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POLITICAL

NETHERLANDS

DISSENSION, INTERNAL PROBLEMS OF LABOR PARTY

Amsterdam VRIJ NEDERLAND in Dutch 23 Jan 82 pp 1, 2

[Article by correspondents Feike Salverda, Jeroen Terlingen and Max van Weezel: "Panic in the PvdA [Labor Party]"

[Text] Like King William II changed from conservative to liberal in 48 hours, Max van den Berg changed after a weekend of deliberation from radical to realist.

Lucky for him, he does not stand alone. His entire Second Chamber group is drawing up the New Course: tax relief for business men, higher premiums for employees and benefit recipients.

Only Joop den Uyl still keeps up their courage during the stay in the woods.

The PvdA is receiving therapy.

At long last, the PvdA Executive Committee is frightened to death, witness the statements at the end of the first retreat weekend. "The party is in disorder," "great panic prevails." Not the unemployment figures, industrial shutdown, and the treasury deficits produced this frame of mind in the officials, but the continuing drop in the polls. The electorate threatens to shrink 30 percent in a year's time, members walk out monthly in groups of five hundred.

New party leaders overlook the political consequences of the Wagner Committee report on industry, or the economy proposals and part time studies of top officials. All the sharper before their eyes are the analyses of the PvdA chief for market research, Kees Bode, framer of the melodiously titled, but, moreover, not very encouraging reports such as "The Dull Inconvenience" and "The Great Journey"--according to D'66 [Democrats '66] well understandable by the PvdA.

The PvdA Executive Committee has already learned one lesson from the Jan Terlouw club; it is concerned about image projection, not about

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the content of the policy followed. Policy must be adjusted if it is necessary to improve image projection. An executive committee member said Tuesday morning, summarizing Bode's recommendations: "The PvdA's policy is not wrong, but the party's style, spirit, atmosphere and influence are not suitable. The party must come across differently.

That image--a reading of Bode's internal notes indicates--can be summed up in the following, not very flattering characterizations: the PvdA is not credible--the party makes promises year in, year out, which it knows will not be kept; the PvdA is incapable--the apparatus does not function, executive committee, party council, congresses and division meetings are distinguished by great mutual dissension; the PvdA is demanding--it issues ultimatums, gives no arguments.

Under the heading "New Course," the new Max van den Berg declared on Monday in NRC HANDELSBLAD the switch which was discussed for 2 days in the Speulderbos Hotel in the Guelders Garderen. Its key words appear to be borrowed directly from adjutant Bode's advertising jargon: "attitude," "communications disturbance," "information," "sort of short circuits," "credibility."

Van den Berg's face-lift has until now especially psychological significance, that applies especially to the social security of the party chairman himself, who does not want to tie his fate any longer to the not very promising prospects of the left wing. Van den Berg said in NRC HANDELSBLAD: "I myself was identified earlier with a certain wing in the party, but now I say we must integrate much more, it is now sink or swim."

Regarding the weekend of deliberation itself, really only Friday evening itself was worth reporting--consequently as for the rest, people were confused. The political leader (Den Uyl) considered it his duty here to keep up their spirits. One party leader said: "Den Uyl held a pep talk and, as in all pep talks, it had no content." Another leader said: "Den Uyl acted very self-confident. It was almost amusing. He sat there beaming, looking around and only things came out like: fellows, things are going well, we will pull through all right."

Two incidents that Friday evening illustrated that it involved here a meeting of the leadership of a political association. State Secretary Hans Kombrink who wants to remain longer at the Ministry of Finance, expressed a view, which showed surprising agreement with that of his present chief, Doctor of Laws Fons van der Stee. Chairman Van der Berg, in a report issued (PB No 102 1981/82) about the economies which the PvdA had pledged itself to in the current budget year felt himself bound to a maximum: "5 billion is the limit and already unusually heavy. State Secretary Kombrink, whom it may be assumed

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has been entrusted with the scope of the spring report to appear in 6 weeks, declined in advance such an umpteenth limitation. If the PvdA wants to continue to govern and, nevertheless, wants to maintain the connection between minimum wages and minimum benefit, then more must be saved in government expenditures, more than 5 billion. The executive committee listened to him. Wim Meijer spoke in a conciliatory fashion. Minister Van Dam remained hidden behind his newspaper the rest of the evening. No decision was taken.

The Van der Louw Lobby (represented at the weekend of deliberation by Meijer, Peper, Kombrink and Heyne den Bak--the latter is at the same time political consultant of the Minister of Culture, Recreation and Social Welfare) directed its attack on the party itself. With Heyne den Bak in the lead, the lobby wanted to subject the entire party leadership to shock therapy. The leadership does not understand the country's problems. That was quite obvious from all the protests against the proposed economies in the Health Insurance Act benefits--while even much more was in store for them.

The prevailing ideas of the party leadership must be reformed as soon as possible. Den Uyl advised against the recommended therapy. Peper moderated Den Bak's words. The proposal was held over.

Then it came as a surprise for everyone that Max van den Berg announced the New Course Monday, completely on his own initiative and, moreover, pledged himself to a minimum economy of 5 billion ("let us first try to achieve the 5 billion") and, by the way, gave up his own main point of controversy (closing of the nuclear power plants in Borssele and Dodewaard). The PvdA is doing its utmost, on the eve of the election campaigns before town councils and Provincial Estates, the result of which is predictable, to remain acceptable afterwards to the CDA [Christian Democratic Appeal], which can then again take the road of a majority cabinet with the VVD [People's Party for Freedom and Democracy]. Van den Berg's about-face anticipates that development. If the CDA continues to tolerate the PvdA longer as a government partner, the real struggle will not break out in it, the struggle about more economies in social security, the struggle about whether or not there will be any fundamentally different setup of the benefit system. Den Uyl is against that, but his top officials, the CDA and parts of the PvdA want to reduce all employee benefits to half the minimum plus an individual extra allowance, together at the most: a full minimum benefit. (see VN [VRIJE NEDERLAND], 20 June 1981). There is also the struggle about whether or not a reduction of the WAO [Law on Labor Disability] benefit; whether or not compulsory work for 18 to 20 year olds and whether or not a jobs plan.

New Retreat

The party executive committee may still not have made any political decision but the Second Chamber group has already begun with that.

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The group is going back into the woods next weekend (at the conference resort of the Federal Savings Bank in Doorn). One day is reserved for outside speakers to come and express their opinions about the PvdA. The conclusion will perhaps be identical (not credible, incapable, demanding), but the motivation will differ: among the guests of the group are both Mient Jan Faber of the IKV [Interchurch Peace Council] and Dr Ruding of the Amro Bank, Wim Kok of the FNV [Netherlands Trade Union Federation] and Jan Dogterom of the Association for the Preservation of the Wadden Zee.

The second day could be of more political significance, because then the parliamentary group, party executive committee and officials Max van den Berg and Wim Meijer may listen. The subject for both of them is the New Course. What that implies, Wim Meijer has managed to explain very clearly for a week and a half, supported as he is by a confidential memorandum from the deputy chairman of his parliamentary group, Arie Van der Hek. Van der Hek is by nature a realist, although long before Van der Louw with his supporters decided to be so. It is all the more remarkable that Van der Hek's work ("Concerning: Social and financial-economic policy for 1982") was not questioned during a rather detailed discussion in the group Tuesday last week, while there was every reason for that.

Van der Hek writes, taking a relative view, about the purchasing power of the lowest paid: "The condition of this income is not absolutely firm in terms of purchasing power, but may drop less than every other income." With that the PvdA group opens the way for a purchasing power drop of the lowest paid which exceeds 1 percent. He discusses, with precisely such a relative view, the income leveling which his political leader, Den Uyl, stuck to, until now. The parliamentary group's report declares: "The figures--1 percent and--4 percent are moreover, arbitrary for they are based on a method of computation whose validity must be questioned in advance."

Van der Hek thinks that the PvdA emphasizes too little that restoration of the economy is a condition for new employment opportunity. His report says: "We are not taken seriously about the goal of economic recovery."

His opinion about the job plans of the individual ministers is: "The PvdA must avoid counting out jobs from inconsistent plans, by manipulating election platforms and government agreements, isolated from social conditions."

Van der Hek frankly chooses "tax relief for the employers (the government included)." He gave the parliamentary group the choice. In the first place: separate the benefits from the wages and thus keep the benefits down. Second option: no separation, but let the employers

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pay a smaller premium to the social funds and let the workers and benefit recipients pay a higher premium. Third possibility: no separation, but reduce the gross wages.

Van der Hek rejected the first option at the present time (because he opposes separation) and the third (because he opposes government involvement in wages for years). The second possible choice remains. That means that the PvdA favors reduction of net wages and benefits. The report says: "The released funds help to restore the competitive position, but now the costs of it are paid by all workers and benefit recipients together."

Van der Hek thinks that, besides the PvdA, the trade union movement must also publicly commit itself to the choice of his second alternative. If that does not happen, then the PvdA will have to drop its opposition to separation. The confidential report says: "Coalition partners and the trade union movement would have to expressly commit themselves to 2. to prevent drifting toward 1."

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MILITARY

FRANCE

DEFENSE BUDGET FOR 1982 OUTLINED: AIR FORCE SEEN LACKING FUNDS

Paris AIR ET COSMOS in French 21 Nov 81 pp 11, 12, 64

[Article by J.G.: "The National Assembly Passes the 1982 Defense Budget--the Defense Council Has Passed Several Measures Concerning the Nuclear Forces"]

[Text] On Saturday 14 November 1981, the deputies to the National Assembly completed examination of the draft defense budget for 1982, discussion of which had opened the day before. While the minister of defense, Charles Hernu, was announcing in the Assembly that the Defense Council had recently decided "to start on construction of a seventh missile-launching nuclear submarine" and that "the program authorizations had been provided for starting in 1982 the first studies on a system intended to succeed the Pluton," the Elysee's press department was issuing a communique announcing the following decisions, reached at a Defense Council meeting held on 30 October last:

- a seventh submarine, representing a new generation, will be built, to be placed in service before the middle of the next decade;
- the number of missile-launching nuclear submarines on permanent patrol will be raised to three within the next few years; equipping of them with the new multiple-warhead M-4 missiles will be continued;
- the Pluton tactical nuclear missile will be replaced, when it reaches the end of its service lifetime, by a new ground-to-ground missile of greater range, to be called the Hades, whose payloads will be defined later;
- a new ground-to-ground mobile ballistic missile will be developed; this new strategic weapons system will succeed the Mirage IV's when they are retired from service.

Anxiety of the Air Force Budget Rapporteur

Before the statement by the minister, who was to justify the main options of the defense policy as conceived by Mr Mauroy's government and defend the broad outlines of his draft budget for 1982, Loic Bouvard, advisory rapporteur for the Air Force budget, had told the Assembly of his anxiety, based on "several defects," which we summarize briefly: "The military programming law had provided that 22.27 percent of the defense credits should be allocated to the Air section. Each year saw an advance toward that objective. But in 1982, the trend takes an unfavorable turn, and from 21.24 percent of the defense budget in 1981, the Air section will drop to only 21.12 percent in 1982. The target is thus receding. The most direct result of

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this harmful evolution is at the level of the program authorizations that lay the groundwork for the future. In effect, the program authorizations for the Air section will remain below the Fr 20 billion threshold next year, and on the basis of the probable rise in the cost of military supplies, it will decrease in value as compared to 1981."

The rapporteur then enumerated, in his speech, the four harmful effects of the slowdown of the effort which, in his judgment, characterizes the 1982 budget:

"First of all, the reduction in orders of Mirage 2000's depressing the potential of our air defense.

"The Mirage-2000 building program is already 2 years behind schedule.... While the first assembly-line planes, in the version designed for air defense, may be delivered in 1983, they will not at that time be fitted with their definitive engine or with the most highly developed radar, which will not be available in quantity until 1986. Meanwhile, the Mirage 2000 will fly with the excellent radar with which the Mirage F1 is presently equipped; but that radar is not the best-suited for interception of airplanes attempting low-altitude intrusion.

"There is thus a delay in the technical completion of the Mirage 2000, but there is also a lag in the orders for the plane.... The Mirage 2000 was initially to equip the Air Force in 1982. Since that target could not be reached, the orders for Mirage F1's were increased. But next year, instead of ordering 40 Mirage 2000's, as planned, it will be possible to order only 25, for lack of credits. Thanks to this drastic economy measure, the Air Force, in view of the austerity imposed on it, recovers a certain mass of funds for maneuvering with that will enable it to cope with its other needs one way or another.

"But the consequences of this forced economy may be serious in the long term. For the men, first of all: the lag in orders for the equivalent of a squadron of Mirage 2000's will make it necessary to keep a squadron of Mirage III's in service longer. But this latter plane, which was excellent 15 years ago, will be run down in a few years, despite its legendary touchness. The repetition of such an operation another time could not at this point be done without risk to the life of the men who will pilot the plane.

"There is a serious consequence also for the Air Force's capacity: it will not be possible to reduce the Mirage 2000 orders another year without the Air Force's being forced to decrease the number of the 450 planes that the imperatives of our defense make it necessary to put into service.

"Secondly, the shortage in our stocks of combat munitions at the end of 1982--that is, at the time when the next draft budget is being prepared--will be on the order of one-third, as regards shells for 30-mm cannons, bombs, munitions for the 20-mm twin-tube antiaircraft gun and Crotales. The shortage will remain on the order of 30 percent for air-to-air missiles; and it will not be made up for the air-to-ground rockets.

"Thirdly, our military air transport's long-distance capacity remains insufficient. The insufficient load capacity and range of our Transalls are known. To be sure, 25 Transalls capable of being refuelled in flight were ordered from 1978 to 1981;

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but no additional orders are planned either in 1982 or later. But the Nord 2501's, some 100 of which are still flying, will not be replaced one for one. In addition, the Transall cannot be used to carry powerful armored vehicles, of the AMX 30 type or the new AMX 10 RC. Thus our external-intervention--'external-assistance'--troops...can be supported only by light armored cars.... One can only deplore the fact that our military transport facilities are not always coherent with our responsibilities, our commitments and our strategy, and that nothing in the draft budget is planned for remedying this situation. The re-engining of the fuel planes, though useful in any case, is not a response adequate to the seriousness of the problem: we continue to have imperative need of a heavy long-range transport plane.

"Fourthly, the modernization of the low-altitude defense of our bases is progressing too slowly. A plan exists for achieving this result, to be sure, but its fulfillment is far too slow. In 1982, the credits will make it possible to build only 28 new shelters for airplanes and to provide doors for only 66 shelters. The annual ordering of 56 20-mm twin-tube guns does not compensate for the crying absence of a missile that is effective against planes flying at very low altitude, which could in this way thwart our air defense.... To remedy this deficiency, the government appears to be leaning toward purchase, in the United States, of a Grumman E-2C Hawkeye airborne radar system. This system, in service in the American Navy since 1976, is about five times less expensive than the Boeing AWACS [Airborne Warning and Control System], but achieves performance characteristics that are still compatible with the dimensions of French territory and the specific needs of our defense...."

Thirty Mirage 2000's Ordered

The minister of defense, in his long address, desired to alleviate Loic Bouvard's anxiety, specifying in particular "that at least 30 orders (of Mirage 2000's) will be made between now and 1983. The first Mirage 2000 planes will be equipped with multimode Doppler radar..., with better performance characteristics than the present radar with which the Mirage F1 is equipped. Furthermore, the Air Force will order 30 Epsilon planes.

"Protection of the air bases remains one of the priorities of the Air Force, which has devoted an ambitious 7-year plan to it. Fifty-six 20-mm antiaircraft batteries will be ordered in 1982, raising the total of orders in 6 years to 272, which is 120 more than the program law. At the same time, 28 concrete shelters for airplanes, and 11 underground PC's [Command Posts] will be built, by means of infrastructure payments that total Fr 982 million in payment credits, which is an increase of 36 percent over 1981."

The Nuclear Forces

As regards nuclear armament, strategic and tactical, the minister gave the following specifics:

"The credits devoted to the nuclear forces...will total Fr 20.135 billion in program authorizations and Fr 16.499 billion in credit payments. The increase in program authorizations is considerably sharper than for Title V as a whole: 20.6 percent as against 12.5 percent. Their proportion of the total equipment budget thus goes up quite a bit, from 25.9 percent to 27.8 percent.

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"The increase in credit payments is 18.3 percent, which keeps the part of Title V devoted to the national strategic force and to tactical nuclear weaponry at 30.0 percent. The credits earmarked for the air component of the deterrent force cover essentially the expenditures connected with the Mirage IV, the equipment of which with electronic countermeasures is strengthened; with the C-135 refuelling planes, which will be re-engined with CFM 56 jets developed jointly by SNECMA [National Aircraft Engine Design and Construction Company] and General Electric; and with the medium-range air-to-ground missile with which a squadron of five Mirage IV's will be equipped in 1985.

"...The program authorizations provided for the strategic naval force, an essential component of our deterrent force, total Fr 3.6 billion, up 30 percent from 1981. This increase reflects the continuance of construction of the sixth missile-launching nuclear submarine, the "Inflexible," which will enter the operational cycle in 1985, equipped with the new M-4 multiple-warhead missile. The strategic naval force also has to prepare for the refitting of the missile-launching nuclear submarines, which will receive the new M-4 missiles starting in 1987. Finally, the missile-launching nuclear submarines presently in service have to be maintained, at least, in operating condition.

"...For nuclear experimentation, a program-authorizations total is allocated that makes it possible, as regards the part transferred to the atomic testing center, to continue the test-explosion programs, and as regards the armed-forces part, to finance the expenditures for infrastructure and for materiel equipment.

"...Finally, as regards tactical nuclear weaponry, the credits provided make it possible to finance the AN-52 weapon, the medium-range air-to-ground missile and the Pluton weapons system."

As regards the Army, the minister specified in particular, with reference to missiles, that the Milan will still be delivered in 1982 but will not be ordered any longer; that 38 specimens of the Hot will be ordered, which exceeds the targets of the program law; but that on the other hand, the orders for Roland ground-to-air missiles "will not make it possible to make up for the shortfalls accumulated during the preceding 10 years"--though this will be done in 1983.

For the Navy, the minister stressed, three airplanes (Editor's Note: They are Falcon 20's) will be ordered in 1982 in pursuance of the same program aimed at giving our country means for action on the high seas--means that are commissioned by the Navy but on the operational level come under the minister of maritime affairs.

The Armed Forces' Activities

With reference to the armed forces' activities, the minister stated: "For the Air Force, the objective of 500,000 hours of flying time, which represents minimum training time for the combat pilots, the carrying-out of transport missions and general training of personnel, has had to be reduced to 419,000 hours. This has been made possible only by the decrease in the number of pilots per plane, which has gradually gone down from 1.6 to 1.2

"For the air forces, 706,000 m³ of jet fuel and 16,000 m³ of aviation gasoline will be provided in 1982, so as to reach total annual activity on the order of 420,000

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hours of flying time, making it possible to provide the combat pilots with 180 hours per year on an armed plane, to preserve the present level of active flying time for the navigatin-personnel schools, and for transport aviation to meet the armed forces' needs."

Research

The research programs to be continued in 1982 are:

--for the Army: the main combat vehicle to succeed the AMX-30, the antitank helicopter, and the engineers' armored vehicle;

--for the Air Force: development of the Mirage 2000; its air-to-air weaponry; the laser-guided bombardment systems; the M-88 engine;

--for the Navy: development of the SNA's [Nuclear Attack Submarines], of the mine-sweepers, the antiaircraft and antisubmarine corvettes and their weapons systems: DRBJ [expansion unknown] II radar, sonars, missiles, and in particular the SM-39 antisurface missile, capable of being fired from a submerged submarine.

Exportation of Armaments

The minister of defense gave extensive information relative to exportation of armaments, specifying in particular:

--the chairmen and rapporteurs of the parliamentary committees on defense and finance will henceforth receive, when they are made, the texts of the intergovernmental agreements governing programs that result in authorizations and grantings of credits in the name of the Ministry of Defense;

--likewise, each transaction involving the granting of program authorizations under Article 29 of the decision of 16 July 1966, which makes it possible to initiate early orders for foreign purchasers, will likewise be communicated to the chairmen and rapporteurs;

--every 6 months, these personages will receive a note summarizing the situation of our war-materiel exports.

These data will comprise in particular the state of the orders and deliveries for the previous 6-month period, details on these operations by broad categories of materiel, and a breakdown of the sales as between the OECD [Organization for Economic Cooperation and Development] zone and regions outside the OECD.

In Favor: 393 Votes

The 1982 defense budget was passed by 393 votes to 83, out of 480 eligible to vote. Three deputies of the RPR [Rally for the Republic] group--Marcel Dassault, G. de Benouville and Charles Haby--voted for the budget.

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MILITARY

FRANCE

DEFENSE MINISTRY VIEWS FOUR OPTIONS IN AIR DETECTION SYSTEM

Paris AIR ET COSMOS in French 28 Nov, 5 Dec 81

[Article by J.G.: "France Seeks an Airborne Detection System--Grumman's E-2C Hawkeye Is One Possible Solution; There Are Others"]

[28 Nov 81 p 33]

[Excerpts] It is nothing new that the effectiveness of the means of detection that the French air defense has for opposing penetration of enemy craft into the national air space is not perfect. While coverage of all of the territory at high and medium altitudes is total, it proves in any case insufficient, even very weak, at low altitude, since the threat at this level has become the preponderant one, because of the increase of the ranges of action of modern airplanes. In order for French air defense to remain 100-percent credible, this defect must imperatively be remedied.

Since the number of radar stations on the ground that one would have to have in order to ensure effectively a homogeneous and continuous low-altitude coverage is far too high for a ground-based solution to be envisioned in practical and economic terms, airborne detection is the only other way to solve the problem.

For its part, the Air Force--which, in cooperation with the other armed forces and within a broadly interministerial framework, fills a major role in the organization on which air defense rests in France--has a choice among four solutions today: two already existing airplanes, the Boeing E-3A and the Grumman E-2C, can function as airborne detection platforms; and two other proposals can be considered, constituting the other two options: a Transall, the Franco-FRG plane, equipped with an AEW (Airborne Early Warning) system developed by Marconi for the Nimrod Mk 3, or a system largely derived from the one developed by Grumman, who is an outstanding specialist in logical applications, for the most recent version of the E-2C Hawkeye in service in the U.S. Navy.

At the beginning of this week, the Grumman company invited to its Bethpage (Long Island, New York) installations, where the E-2C Hawkeye is assembled, a small group of French journalists, both to present the plane to them (and the concept on which its use is based) and to show them the diversification of the company's activities and communicate its desire to try to develop closer relations with the French aerospace industry and conclude agreements with other French industrial sectors.

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Within the framework of this action, at the time that the signing of the important contract signifying the breakthrough of the Ariane launcher into the United States was announced in France (see Pierre Langereux's article on page 39), a representative of Arianespace present at Bethpage stressed the action and role of Grumman in that operation. He admitted that when Arianespace was created 18 months ago, the very idea of orders from the United States was unthinkable. He explained the success of Grumman's action by the knowledge that the American builder has of space problems and the potential market for Ariane launchers in the United States.

In the specifically aeronautical area, Grumman has already had or expects to have contacts with some French industrial firms. To some, proposals have been made for possible transactions (this is the case with Thomson-CSF [General Radio Company], Crouzet, Turbomeca). Others, such as SOGERMA [Girondine Company for the Maintenance and Repair of Aeronautical Equipment], have expressed interest in possible heavy-maintenance work, on the hypothesis that the French government orders a number of Hawkeyes.

[5 Dec 81 p 23]

[Excerpts] The Ministry of Defense, for its part, has already received the complete results, communicated by the Air Force, of the second operational evaluation of the E-2C Hawkeye carried out at Mont-de-Marsan last April. The results are positive in many respects, though some serious uncertainties remain. In order to form a more precise idea of the comparative merits and disadvantages of the two planes, the Ministry of Defense has asked its departments to carry out a comparative study, the conclusions of which should be submitted to it by 15 April 1982 at the latest.

Boeing, which last Tuesday presented to the press the E-3A AWACS in the standard version for the U.S. Air Force and for NATO (see following pages), limited itself to stating that it had not to date submitted any bid to the French Air Force, since the latter has not told the Seattle builder anything about its operational specifications.

The price announced is \$78 million (1981 value) for the equipped plane at the plant. Questioned about the cost of training the monitors responsible for exploiting the data during operational missions, the Boeing representatives declared that they could not give an exact figure. Questioned about the hourly fuel consumption of the AWACS, they indicated 6,815 liters.

Two information missions comprising engineers of the DGA [expansion unknown] and officers of the Air Force visited the Tinker base of the U.S. Air Force (this base provides the support for the AWACS fleet) and Boeing (Loic Bouvard's report) a few months ago. But Boeing has not been informed of the commentaries drawn up on the French side at the conclusion of these information flights.

The Air Force is not presently considering carrying out a full-scale evaluation of the AWACS over French territory. It is intending to call on NATO for gathering all the information that it will consider useful. Within its budget limits, the Air Force is certainly not in a position to envision acquiring as many AWACS as Hawkeyes; in both cases, a minimum of four planes is necessary. If other ministries participate in the financing of the E-3A, by virtue of the pluriministerial character of air defense in France, the choice would not be posed in the same terms--on condition, of course, that the participation of the other ministries concerned is not a symbolic one.

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MILITARY

FRANCE

HELICOPTER DIVISION CHIEF DISCUSSES TRENDS, PRODUCTION, R & D

Paris AIR ET COSMOS in French 19 Dec 81 pp 27-31

[Article by Jacques Morisset: "Marignane: Priority to Industrial Efficiency"]

[Text] In 3 Years, the Helicopter Division of Aerospatiale Will Double Its Production

The year 1980 was a very good one for Aerospatiale (Helicopter Division) and its American branch AHC: Fr 6.2 billion in orders, 85 percent of which was for export to 39 countries; consolidated turnover of Fr 3.2 billion, 78 percent of it from exportation; 345 helicopters delivered, and 639 new craft of all types ordered. Not to mention important license contracts made with the Indonesian company Nurtanio for production of the Puma and Super Puma, and with the People's Republic of China for production of the Dauphin. On the whole, an entirely remarkable balance-sheet --due to the success quite obviously encountered in the world market by the helicopters of the new range: AS-350 (Ecureuil/AStar), AS-355 (Ecureuil-2/Twin-Star), SA-365N (Dauphin 2), AS-332 (Super Puma).

Will 1981 be a fruitful year also? To find out, we asked that question of Francois Legrand, who kindly received the AIR ET COSMOS team. "At this year-end," the director of Aerospatiale's Helicopter Division replied, "it is still too early to give you exact figures, but I can already tell you that our sales figure will doubtlessly be even higher than that of 1980, which was itself a very good year. Our market penetration is developing, and 1981, as you know, has been marked by the success of the Super Puma (which has broken through into the North Sea) and of the Twin-Star. Our real problems are mainly problems of delivery."

Optimizing the Production Instrument

"The complete renovation of our range represented a period of pure creation, and we must now set ourselves to producing--whence the in-depth renovation of our production instrument, as regards both means and methods and the organization of it. To this systematic quest for industrial efficiency is added a big effort at adaptation to the civilian market, which has become our No 1 customer--whence the development of after-sales service.

"In 25 years, we have succeeded in creating a helicopter industry that provides a living for 25,000 to 30,000 persons in France. But profitability and competitiveness are the real factors of job-creation. In the coming 3 years, we expect to

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double the number of helicopters produced and marketed. Whence, in order to achieve the production level aimed at, the systematic use of computerization, of modern manufacturing methods, of new materials. The increase in production also can be achieved only by reorganizing the circulation of information, which is indispensable for correct management of supply, storage, handling, which represent a considerable percentage of costs.

"As in the automobile industry, from which we are transposing certain achievements, we are therefore led to optimize the whole of our production instrument. That is what it will take to remain competitive. One need only see, for example, our gluing line for Dauphin elements and the setting-up of preassembly lines to be convinced that the investments made are justified."

"Of course, all this does not mean in any way that we are neglecting research and development, which enabled us to create the new range: we are now applying ourselves to raising the level of research again, so as to prepare for the next decade's generation and to upgrade the existing one. Let us say that there is a cyclical calendar for development of a new range: research is followed by development, then industrialization, which requires sizable investments. The nearly simultaneous launching of our three new helicopters created--if one examines the evolution of expenditures over time--a certain wave effect, which is entirely normal."

Subcontracting

"Another problem is that of the subcontracting network. The percentage we are tending toward is 50 percent; a part of this subcontracting is of course assigned to units of Aerospatiale's subsidiaries that are likely to benefit from it. Subcontracting is actually necessitated in the following cases:

- search for the best economic or technical conditions (specialized subcontracting);
- adherence to industrial agreements made with other countries (cooperation, compensation);
- utilization of recognized competencies (for example, Fiat for its transmission cases);
- utilization also of the existing industrial capacities, on condition that they offer a good cost-effectiveness ratio.

"It is in this spirit that we are helping to ensure the work load of certain of our group's subsidiaries. The SOCATA [expansion unknown], for example, does 40 percent of its work for our division."

Franco-FRG Cooperation

"For several years, we have been working with MBB [Messerschmitt-Bolkow-Blohm] on an 'HAC,' or antitank helicopter, project (PAH-2 in the German terminology), the development of which has in the last analysis proved difficult to carry out within a budget framework that is too narrow for the ambitions of the project. Whence the question that was posed last Spring: should something be done on the national scale, or should cooperation be started over again on other bases? Thus it was that the HAP (Support and Protection Helicopter) concept arose, in which priority is given to support and protection, with the nighttime antitank possibilities assigned second priority. Such a machine could be built on the basis of the present Dauphin,

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but given a different fuselage, and it would offer the desired qualities of maneuverability, speed and protection.

"The HAP concept is developing. Such a machine should be capable both of ground intervention and of providing protection of helicopters from enemy craft. This would require, for short distances, the use of a cannon with which a sighting and orientation system would be associated; for distances of several kilometers, we would need a missile, but a specialized missile, offering maneuvering capacities very different from those asked of an antitank missile or even an air-to-air missile, because a helicopter has very high maneuverability.

"The most expensive item will obviously be the development of the weapons system. It should be noted that in France we already have available to us thermal cameras that are at least as good as their American counterparts. We are therefore favorable to development of the Portos system (the designated successor to the Venus system), via its components; if it proves really desirable, it will always be possible to go from a roof-sight system to a raised sphere system (Giraffe). As for nighttime antitank combat, the idea is developing of simply using third-generation light-amplifying binoculars, which are simple and light, whereas a system such as the American PNVIS [expansion unknown], which is too sophisticated for a battlefield, leads to complicated and expensive solutions.

"This HAP, derived from the present Dauphin, would be a bi-TM 333, weighing about 3.8 tons.

"None of this keeps anyone, on either the FRG side or the French side, from being aware of the importance of starting up on cooperation again. A joint proposal has therefore been worked up by the two industrial firms concerned and it has just been submitted to the armament directors. It has two aspects:

--a proposal for development of a less expensive craft than the former PAH-2--intermediate, in a way, between it and the French HAP/HAC concept. Weighing a little more than 4 tons, this ship would use the dynamic elements of the Dauphin, but with a rotor redesigned by MBB so as to obtain the additional lift needed and especially the additional maneuverability desired for the mass envisioned (4.2 tons). The engines would be TM 385 R's--that is, engines derived from the TM 333, with the collaboration of MTU [expansion unknown]. The optronics would be those of the Portos system, with possible use of U.S. modules manufactured (under license) in the FRG. The target date for the first deliveries of operational machines is 1987. The fuselage configuration would probably be a side-by-side two-seater, with lower turret. It remains to find the financing, which would be facilitated by the export possibilities.

"A meeting is now planned for the first quarter of 1982: the ball is in the governments' (and the users') court.

--creation of a GIE [Economic Interest Group] responsible for managing, on an equal-importance basis, the adaptation of the Super Puma to the FRG's military needs and the development of a European tactical transport helicopter. These craft would therefore be built in three versions, differing only in their systems and equipment: FRG, French, 'export.' The first machine, with a fuselage designed around the systems envisioned, could be flying at the end of 1984/beginning of 1985."

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Engines Named Desire...

What are your relations with Turbomeca?

"We note with pleasure the entirely remarkable recovery of Turbomeca, which is studying and developing new techniques and components; the Bordes firm, which is coming back into top world position, is showing an obvious desire to define a range of new products, beyond the "Makila," with which we are particularly satisfied but which is actually a transitional engine.

"The new generation that we need can be defined as follows: a 500-HP family, a 1,000-HP family, a 2,000-HP family. Priority should be given to the 1,000-HP turboengine: it is represented by the TM 333 (850 HP) and its derivative the TM 385 R (1,000 HP +).

"We need it for 1985, in order to upgrade the Dauphin.

"Next comes a modern turboengine of 1,800/2,000 HP, called on to succeed the Makila; it will enable us to develop, for the 1990's, a Super Puma Mk 2.

"We also need, for the Ecureuil-2, a 450-HP turboengine equivalent to the present Allison but in a more modern version. The studies started at Bordes 2 years ago led to an economic impossibility; and since that time, the dollar has climbed, and the price of the Allison too. We are therefore reexamining the balance-sheet of the engines' cost in relation to that of the craft, while Turbomeca, for its part, is studying the possibility of developing a simple and not too expensive engine that could replace the Allison.

"The AS-355, in fact, is being called on to replace the Alouette-3, and we will perhaps be led to develop an AS-355 Mk 2 with a more spacious fuselage. The Air Force is going to equip itself with AS-355's fitted (in the first batch) with Allison engines. A decision will be taken later for a second batch capable of receiving the future Turbomeca engine as a retrofit. It should be noted that the financing of this new engine is being ensured jointly by the DGA and the DGAC [expansions unknown], with a certain amount of self-financing by Turbomeca.

"The development of a military Ecureuil-2 will, of course, entail certain adaptations; the military AS-355 will be perfectly well-adapted to liaison, training, specialized missions (surveillance of 'sensitive' bases). It will also be able to take light armament, but in this role, the Gazelle remains a remarkable machine.

The Programs

Etienne Lefort, program chief to Mr Legrand, drew up for us a balance-sheet of the programs in progress:

--The Super Puma is now being turned out on an assembly line; there are firm orders for some 100 craft, not counting the options (including some 20 military machines). In fact, practically all of the 150 craft on which manufacture has started are already sold. Deliveries began in July, and some 20 Super Pumas will have been delivered by the end of this year. The rate of delivery will reach 4 per month during the first quarter of 1982, and it will rise to 5 or 6 per month at the end of that year, which will see the delivery of the 80th machine.

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After the Super Puma's remarkable breakthrough into the civilian market, offshore in particular (after the North Sea, the North American market, which has not yet been worked very much, is opening up in turn, the Super Puma being very competitive vis-a-vis the Bell 214 ST, which has not taken over), 1982 will probably be the year of the breakthrough into the military market, especially in the short version (180 kg lighter). The machine is now certified in its two versions, at 8.35 tons, but the flying range has been opened up to 9.75 tons. In its category, the Super Puma is best as regards safety (big reserve of power), comfort (low vibration level, low noise level, thanks to special internal fittings), economy of operation (initial potential: 3,000 hours; easy access for maintenance), output (high speed), possibilities of flight in an icy atmosphere (testing program planned this winter in the Grand Nord).

--Dauphin: more than 400 machines have been sold, including the SA-360's, the SA-365C's and the 90 SA-366G's of the U.S. Coast Guard.

Some 10 SA-365N's have now been delivered, and high production rates are planned: 10 machines per month at mid-1982, 16 per month at the beginning of 1983. Construction of 300 machines has started.

It remains to obtain the American and British IFR [Instrument Flight Rules] certifications, expected in the first quarter of 1982. The Arriel turboengine, which is proving satisfactory, is being delivered right on time by Turbomeca. Effort is now being concentrated on certification of the optional equipment: radio, built-in flotation, special equipment for offshore operations. Final development of the SA-366G is completed (French certification anticipated in first quarter of 1982).

--Ecureuil: 1981 was the year of the AS-355, some 450 of which have now been ordered, a good 100 of which will have been delivered by the end of this year. The fabrication rate is around 20 machines per month. IFR certification is anticipated in mid-1982.

Some 750 of the single-engine version (AS-350) have been ordered, including 450 AStars with Lycoming engines and 300 Ecureuil with Arriel engines. After the line was temporarily shut down because of delays in deliveries by Lycoming, it was reactivated, the American engine manufacturer having finally managed to solve its problems. At the end of this year, more than 500 AS-350's will have been delivered, and the two parallel lines are now operating at full speed: in the first half of 1982, the rate will reach 35 to 40 machines per month (AS-350's + AS-355's). At the end of 1982, the rate will rise to 50.

--Lama: the SA-315 is still coming off the line. This "crane" version of the Alouette is still valued, because it is irreplaceable. About 360 Lamas have now been delivered, and the fabrication rate has been stabilized at 2 machines per month. In a few years, a Lama Mk 2, fitted with a TM 333, should appear.

--Finally, the Gazelle, whose assembly line has stayed open because of the Army's orders, is the object of new interest, while the last Super Frelons are being delivered (104 machines have come off the line). The Super Puma equipped with AM-39 missiles is now taking over.

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